



# LEGAL CHALLENGES THROUGH THE THEORY OF HARMONY OF LABOR AND CAPITAL INTERESTS

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## ABSTRACT

This article explores the relationship between labor and capital interests through the lens of Frederick Winslow Taylor's scientific management theory and Georgian legal frameworks. It examines how harmonizing these interests can address organizational conflicts and enhance labor efficiency and capital growth. The concept of "interest" plays a critical role in this analysis. In a broader sense, interest reflects an individual's motivation and engagement with various subjects, shaped by their legal, social and economic context. Interest pertains to production relationships and the distribution of resources, influencing how labor and capital interact within a corporate setting. Optimizing work processes can align employee and employer goals, fostering a more equitable distribution of wealth. The analysis highlights the role of interest in legal contexts and the importance of compliance in managing conflicts. Organizations can improve governance and achieve a balanced, productive work environment by integrating scientific management with fiduciary duties and ethical practices.

*“All we want is to see wealth spread  
among the laboring classes”*  
**Napoleon**

## INTRODUCTION

Cooperation between employee and employer is vital; in this process management takes an important role. The best management might be described as a true science; therefore, scientific management encourages the principle of spreading wealth among the laboring classes. However, before discussing the issues, we should define the word *interest*, which may be crucial in addressing the matter.

### 1. THE CONCEPT OF “INTEREST”

*Interest* is the desire for an object's perception and cognition (Subject, Event, Action). Interest is attributed to the class of intellectual feelings. The interests of their social circle significantly determine the content of an individual's interests. Strong and deep interest often defines an individual's motivation for action. Interest is generally considered regarding direction (i.e., content), volume, intensity, and stability. The content of interests represents the category of objects towards which interest is directed. High-intensity interest may lead to a strong will to achieve the relevant goal; stability is often associated with the intensity of interest but not necessarily. A person with a certain temperament may quickly lose intense interest, while someone with the relatively weaker intensity of interest may retain it throughout their lifetime.<sup>1</sup> Hence, it may be said that you are defined by what you are interested in.

Besides, interest also has its economic perspectives. From an economic standpoint, interest is an objective economic category and a crucial form of manifesting production relationships. As a motivating force for social subjects, it reflects the state of workers within the production system

of society, the connection between their material needs, and their economic activities. The essential aspect of this concept is that it is based on material needs and reflects the specific production relationships of each society. It is a system of interests encompassing the interests of societies, classes, groups, and individual interrelationships. It is a general economic category characteristic of all economic formations of society,<sup>2</sup> and it also has an indirect but close connection to labor and corporate legal systems.

### 2. PROFIT-MAKING AND LEGAL FRAMEWORKS IN GEORGIAN ENTREPRENEURSHIP

According to the Georgian Law on Entrepreneurs, entrepreneurial activity is defined as lawful, independent, organized, and repetitive conduct aimed at generating profit.<sup>3</sup> This implies that profit-making is the primary objective of establishing a legal entity. However, how can it be achieved? Of course, many mechanisms may exist, for instance, individuals with executive and representative authority, such as directors, company partners, or supervisory boards, whose decisions are crucial for achieving corporate profits. Still, ordinary workers should also play an essential role in this procedure. Indeed, the Georgian Law on Entrepreneurs does not directly address ordinary employees' rights to participate in a corporation's everyday business decisions, but laborers' rights are guaranteed through the Labor Code of Georgia. In this context, one of our goals is to highlight the strong connection between these two legal acts.

The connection between the aforementioned legal acts underlines the relevance of the Theory of Harmony of Labor and Capital Interests. This theory may encounter legal challenges that need to be clarified in the context of modern society. Both Labor Code of Georgia and the Law of Entrepreneurs as a new legal act in the Georgian legal sys-

1 Natadze, R. (1986). Georgian Soviet Encyclopedia. Vol. 5. Tbilisi, Georgia: Main Editorial Office of the Georgian Soviet Encyclopedia, p. 175.

2 Chanukvadze, G. (1986). Georgian Soviet Encyclopedia. Vol. 5. Tbilisi, Georgia: Main Editorial Office of the Georgian Soviet Encyclopedia, p. 175.

3 Law of Georgia on Entrepreneurs (2021). Article 2 (2). <https://matsne.gov.ge/ka/document/view/5230186?publication=9#DOCUMENT:1> [Last accessed: 07.07.2024].

tem should address specific legal issues effectively. However, the law might lead to a range of other effects, both positive and negative, that were not initially apparent. Therefore, we must look beyond the surface to fully understand the broader impact of any legal measure.

### 3. THE THEORY OF HARMONY BETWEEN LABOR AND CAPITAL INTEREST

Frédéric Bastiat, a French economist, writer, and a defender of free markets, proposed the Theory of Harmony of Labor and Capital. Frédéric Bastiat suggested that the interests of labor (employees) and capital (employers or capital holders) can be harmonized to establish a collaborative and mutually advantageous relationship. According to this perspective, when labor and capital align their goals and efforts, they can enhance productivity and profitability for the corporation. This improved economic performance that can be equitably distributed, with benefits manifested through increased wages, improved working conditions for employees, and elevated returns on investment for capital holders. This alignment fosters a balanced and effective partnership between labor and capital within a legal framework that promotes shared benefits and cooperation.<sup>4</sup> The theory posits that labor and capital are not inherently in conflict. Rather, their interests can be harmonized through mechanisms such as profit-sharing arrangements, employee stock ownership plans, and participatory management practices. These strategies provide workers with a vested interest in the enterprise's success, thereby aligning their goals with those of capital holders and fostering a cooperative relationship. This alignment can contribute to a more integrated and mutually beneficial business environment, where both labor and capital benefit from the overall success and profitability of the organization.<sup>5</sup>

In his essay "That Which Is Seen and That Which

Is Not Seen," Frédéric Bastiat presents the "broken window fallacy" as a simple and prominent example. According to this case, the shopkeeper's careless son broke a pane of glass when he left it open. But the question arises: "Everybody must live, and what would become of glaziers if panes of glass were never broken?"<sup>6</sup> Spending money by the shopkeeper on the broken window despite unhappiness illustrates regulation of the great part of economic institutions.<sup>7</sup> Cost for repairing the damaged window is the encouragement of trade and it might be granted, however, Bastiat adds that shopkeeper instead the broken window could spend money on another need, for example, he could have replaced his old clothes instead.<sup>8</sup> And sure, money circulation and the encouragement of industry, in general, is provided by hiring the glazier and paying him money for the services provided, but for the glazier's trade "destruction is not profit".<sup>9</sup> Frédéric Bastiat observes that much more significant is what is not seen. For more clarity, he states that if the shopkeeper had not had a window to replace, he would, perhaps, have replaced his old shoes.<sup>10</sup> In point of Frédéric Bastiat's view for money circulation, for industrialization and encouragement it does not matter for what the money will be spent for, but it should be understood that "neither industry in general, nor the total of national labor, is affected, whether windows are broken or not".<sup>11</sup> The shopkeeper instead of broken window, might have spent the money for other needs too. The saying "What would become of the glaziers if nobody ever broke windows?" is a rhetorical question that highlights a flawed way of thinking. Breaking windows might be good for glaziers because it gives them work; however, this perspective ignores that resources spent on repairing windows could have been used for something more productive or beneficial, leading to a net loss for society.

In essence, Frédéric Bastiat's saying challenges the idea that destruction or harm can be economically beneficial just because it creates work or stimulates certain industries. This concept under-

4 Mill, J. S. (1848). *Principles of Political Economy*. Discusses the potential benefits of cooperation between labor and capital. London, UK: John W. Parker, pp. 189-213.

5 Miles, R. E. (1978). *Organizational Strategy, Structure, and Process*. Explores participatory management practices. New York, NY: McGraw-Hill.

6 Bastiat, F. *That Which Is Seen and That Which Is Not Seen*. Paris, France: Guillaumin & Co., p. 2.

7 *Ibid.*, pp. 3-4.

8 *Ibid.*

9 *Ibid.*

10 *Ibid.*

11 *Ibid.*

scores the notion that harmonizing the interests of labor and capital can yield substantial, albeit less immediately visible, benefits essential for a society's sustained economic well-being. By recognizing the direct and indirect effects of economic decisions, legal frameworks can better support practices promoting long-term economic health and equitable benefit distribution.

## The Evolution of Labor Rights

Due to the idea of protecting laborers' rights, Bastiat's views were shared by the Georgian public figure, journalist, politician, lawyer, and writer Ilia Chavchavadze. In 1863, he published Bastiat's work, *The Physiology of Plunder*, in issue No. 8 of the journal *Sakartvelos Moambe*.<sup>12</sup> *The Physiology of Plunder* exposes the mechanisms through which wealth is unfairly redistributed from individuals to others, especially impacting laborers.

According to Bastiat's work, wealth is not merely the affluence of two individuals; it is contentment, well-being, security, independence, and the opportunity to gain an education.<sup>13</sup> In opposition to all these benefits, war, slavery, and monopoly are cited,<sup>14</sup> because war destroys the sustenance, slavery nullifies talent and monopoly transfers wealth from one person to another.<sup>15</sup> However, there comes a time when the loss of wealth reaches a point where even the *plunder* feels that if he had acted honestly, he would have lost less.<sup>16</sup> For example, forcible plunder involves waiting until a person has created something, then using violence to take it away from them,<sup>17</sup> but the Commandment says: "*Thou shalt not steal*".<sup>18</sup> Forcible plunder can also occur in a different way. Instead of waiting for someone to produce something and then taking it from them, the plunderer takes control of the

person, stripping them of their freedom and forcing them to work. Rather than offering a trade of services, the plunderer says: "You do all the work, and I take all the benefits." This is essentially slavery, which always involves the abuse of power.<sup>19</sup> In contemporary times, slavery has persisted up to the present day without causing plantation owners much moral discomfort<sup>20</sup> and how could it be otherwise when it is well established that even Aristotle was unable to conceive of a society that could function without the institution of slavery.<sup>21</sup>

Even in modern, developed legal systems, labor rights face many obstacles, highlighting their relevance due to their high impact on our everyday lives. For example, what promoted the Georgian Labor Code to establish in the legal framework an 8-hour working day for laborers?<sup>22</sup> This is not solely due to the imitation of developed legal systems of different countries. One of the main reasons was the international good practice of successful corporations' corporate governance policies. Thus, Henry Ford, the founder of the Ford Motor Company, played a pivotal role in adopting the 8-hour workday. On January 5, 1914, Ford made a groundbreaking decision that changed labor practices. He reduced the working hours for his employees from 9 to 8 hours per day while also doubling their wages to \$5 a day.<sup>23</sup> Despite this unprecedented decision being aimed at increasing productivity and reducing employee turnover. Henry Ford's introduction of the 8-hour workday represented a significant milestone in labor practices in the United States and internationally. This innovative approach established a crucial precedent for other organizations, significantly advancing the objectives of the broader labor movement. Ford's successful implementation of the 8-hour workday facilitated its adoption across diverse industries and played

12 Sakartvelos Moambe. (1863). No. VIII, August, first year, Tbilisi, Georgia.

13 Bastiat, F. (1863). *The Physiology of Plunder* (translated into Georgian). Sakartvelos Moambe, No. VIII, August, first year, Tbilisi, Georgia, p. 62.

14 *Ibid.*, pp. 62-63.

15 *Ibid.*

16 *Ibid.*, pp. 63-64.

17 Bastiat, F. (1863). *The Physiology of Plunder* (translated into Georgian). Sakartvelos Moambe, No. VIII, August, first year, Tbilisi, Georgia, p. 65.

18 *Ibid.*, pp. 65-66.

19 *Ibid.*, pp. 68-69.

20 Bastiat, F. (1850). *The physiology of plunder*. New York, NY: D. Appleton & Company. <https://www.econlib.org/book-chapters/chapter-s-2-ch-1-the-physiology-of-plunder/> [Last accessed: 07.07.2024].

21 *Ibid.*

22 Labor Code of Georgia (2010). Article 24. <https://www.matsne.gov.ge/ka/document/view/1155567?publication=26> [Last accessed: 07.07.2024].

23 Ford, H. (1922). *My Life and Work*. Garden City, NY: Garden City Publishing Co. This autobiography provides insight into Ford's views and the motivations behind his labor policies.

a pivotal role in shaping subsequent legislative measures that formalized labor reforms. This paradigm shifts not only enhanced working conditions but also contributed to the institutionalization of fair labor standards.<sup>24</sup>

#### 4. HARMONIZING LABOR AND CAPITAL INTERESTS BY USING FIDUCIARY DUTIES, SCIENTIFIC MANAGEMENT AND CORPORATE GOVERNANCE

Fair labor standards and gaining profits for corporations have a crucial connection. According to the Georgian Law on Entrepreneurs, the only individual who makes decisions, controls procedures and defines labor policy in the corporation is the executive and representative authority of the corporation, known as the director or manager in many legal systems. He or she is the stone corner in the relationship with laborers and makes decisions regarding their dismissal, incentives, etc. However, the aforementioned legal act does not directly address this procedure, which encourages us to consider which principle we should adhere to in addressing this issue.

In resolving this matter, fiduciary duties may provide guidance, which are defined as individuals holding executive and representative authority. Fiduciary relationships are trust-based connections between a corporation and its governing body members, such as directors. These relationships originated from English law, dating back to 1742, and have since permeated American legislation.<sup>25</sup>

According to the Georgian Law on Entrepreneurs, fiduciary duties are encapsulated in the general part of the law, specifically Article 50 (1). This article stipulates that directors must fulfill three essential conditions to be exonerated from liability: first, they must act in good faith while making decisions (duty of good faith); second, they must exercise due care towards the enterprise,

which implies acting with the diligence and prudence that an ordinarily prudent person would exercise under similar circumstances (duty of care); and third, they must act with the belief that their actions are in the best economic interests of the corporation (duty of loyalty).<sup>26</sup>

These obligations could collectively be known as the “triad”, comprising the duties of good faith, care, and loyalty obligations.

It should be noted that while these duties are conditionally applied in corporate law, they are closely interrelated.<sup>27</sup> However, it is worth emphasizing that Article 50 of the Law on Entrepreneurs, which consolidated these duties, titles the section only as “Duty of Care.” This section focuses on the obligation to exercise reasonable care, skill, and diligence. As a result, the law prioritizes the duty of care, whereas the duty of loyalty is not explicitly defined within this legal framework.

An exception is found in Article 53 of the new edition of the Law on Entrepreneurs, which addresses the prohibition of competition. This provision contains elements of the duty of loyalty but represents only a specific manifestation of this obligation.<sup>28</sup> Therefore, under Georgian law, the so-called “duty of loyalty”, in essence, relates to the prohibition of competition within the corporation.<sup>29</sup>

Given that the new edition of the Law on Entrepreneurs is based on European directives, the absence of a direct definition of the duty of loyalty in Georgian law may be explained by the fact that, for example, in German law, the legal regulation of the duty of loyalty is less developed in both judicial and academic contexts than in American law.<sup>30</sup> This is because the doctrine concerning the exploitation of corporate opportu-

24 Hirsch, J. (2005). *The Rise and Fall of the American Economic Order*. Chicago, IL: University of Chicago Press. This source examines the impact of Ford’s labor policies on the American economy and labor standards.

25 Chanturia, L. (2006). *Corporate Governance and Accountability of Leaders in Corporate Law*. Tbilisi: Samartali, p. 290.

26 Law of Georgia on Entrepreneurs (2021). Article 50 (1). <<https://matsne.gov.ge/ka/document/view/5230186?publication=9#DOCUMENT:1>> [Last accessed: 07.07.2024].

27 Tsertsvadze, L. (2015). *Duties of Directors in Company Mergers and the Disposal of Control Packages (Comparative-legal Analysis of the U.S., Primarily Delaware State, European, and Georgian Legal Systems)*. Tbilisi, Georgia: Publishing House of TSU, p. 135.

28 Chanturia, L. (2006). *Corporate Governance and Accountability of Leaders in Corporate Law*. Tbilisi: Samartali, p. 303.

29 *Ibid.*, pp. 310-311.

30 *Ibid.*



nities in German law was developed much later than in American law.<sup>31</sup>

Nevertheless, it must be stated that the duty of loyalty requires directors to prioritize the corporation's interests over any personal ones.<sup>32</sup> It should be used to enhance the harmony of interests and safeguard against conflicts of interest.

Before delving further into the duty of loyalty, it is crucial to distinguish it from the duty of care, as determining which duty a director has violated is practically important for establishing liability. First and foremost, it should be noted that the business judgment rule, as defined in Article 52 of the Law on Entrepreneurs, does not apply to the duty of loyalty<sup>33</sup>. The legislature determined that applying this rule to the duty of loyalty would lead to many ambiguities and complicate the issue of holding directors accountable, which is already a complex matter.

The existence of the duty of loyalty is recognized in Georgian legal literature, but distinguishing it from the duty of care is not as simple as it may initially appear. The complexity arises primarily from the fact that the duty of loyalty is not directly defined by legislation.

Consequently, it should be noted that the duty of care establishes an objective procedural standard for performing duties by the governing person when acting in the company's interests. In contrast, the duty of loyalty pertains to the motives behind the actions of the governing person and aims to prevent actions contrary to the company's interests. Thus, a presumption of breach is applied in cases of breach of the duty of loyalty. Conversely, in cases of breach of the duty of care, the presumption is the opposite, derived from the business judgment rule.<sup>34</sup>

As for the prohibition of competition, as already noted, it is a specific manifestation of the duty of loyalty and is regulated by Georgian legislation. The law imposes an obligation on directors to refrain from competing activities during their tenure and, possibly, after their departure if stipulated in their employment contract. This condi-

tion arises from the principle that directors should dedicate all their skills and energy to the company. However, the law only addresses the restriction of employment in competitive enterprises.

Thus, schematically, the duty of loyalty encompasses essential principles for regulating and preventing conflicts of interest, such as self-dealing transactions, related-party transactions, the exploitation of corporate opportunities, insider trading, and relationships revealed within the scope of conflicts of interest.<sup>35</sup> Generally, the duty of loyalty is a fundamental part of fiduciary duties that requires directors of a corporation to act in the best interests of the corporation.<sup>36</sup> It is also true that, traditionally, this duty is understood to protect the corporation and its shareholders itself, ensuring that nobody could put personal interests above those of the company, but the idea of extending this duty to consider the interests of labor and capital interests could theoretically be framed as part of a broader corporate governance model in corporations. Corporate Social Responsibility (CSR) principles serve this purpose exactly. CSR principles encompass: 1. Accountability; 2. Transparency; 3. Ethical behavior; 4. Respect for stakeholder interests; 5. Respect for the rule of law; 6. Respect for the international norms of behavior; 7. Respect for human rights.

The European Union has been instrumental in influencing and advancing CSR practices through its directives and policies. The EU's stance on CSR is based on the belief that businesses should voluntarily incorporate social, environmental, and economic considerations into their operations and their engagements with stakeholders.<sup>37</sup> The Non-Financial Reporting Directive (2014/95/EU)<sup>38</sup> and the EU Directive on Corporate Sustainability

31 *Ibid.*, pp. 312-313.

32 *Ibid.*, pp. 316-317.

33 Chanturia, L. (2006). Corporate Governance and Accountability of Leaders in Corporate Law. Tbilisi: Samartali, p. 320.

34 *Ibid.*, pp. 321-322.

35 Norwood, P., Beveridge, Jr. (1992). The Corporate Director's Fiduciary Duty of Loyalty: Understanding the Self-Interested Director Transaction. *Journal of Corporation Law*, 27 (2), p. 657.

36 Dodd, E. M. (1932). For Whom Are Corporate Managers Trustees? *Harvard Law Review*, 45, No. 7, pp. 1145-1163.

37 European Commission. (2001). Promoting a European Framework for Corporate Social Responsibility. Green Paper, COM (2001) 366.

38 European Parliament and Council (2014). Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups. <<https://eur-lex.europa.eu/eli/dir/2014/95/oj>> [Last accessed: 07.07.2024].

Due Diligence (proposed in 2022)<sup>39</sup> are prime examples of encouraging corporations to act in a socially responsible manner, which often includes fair treatment of employees.<sup>40</sup> If the duty of loyalty is understood in a wider, more socially responsible context, it could be leveraged to support policies and decisions that align the interests of both labor and capital, including initiatives like profit-sharing schemes, involving employees in decision-making processes, or investing in their well-being.<sup>41</sup>

## 5. "TAYLORISM" AS THE PRINCIPLE OF SCIENTIFIC MANAGEMENT

Therefore, what should prevent a corporation, under an appropriate management system, from fostering harmony between labor and capital interests? We can refer to Frederich Winslow Taylor, known as one of the first management consultants, in his work *The Principles of Scientific Management*, which provides significant insights into this matter and attempts to answer the question – how can harmony between labor and capital interests be achieved in practice?

After defining the liabilities of managers, it is essential to reveal the principal objective of management in practice, which should be to secure the maximum prosperity for the employer in conjunction with ensuring the highest level of prosperity for each employee.<sup>42</sup> This is because the duty of loyalty toward corporate development should necessarily result in this outcome as well.

Prosperity should be described in its broad sense, meaning not only large dividends for the company or owner but also the development process of every branch or division of the business to its state of excellence by matching employees with

work suited to their natural abilities.<sup>43</sup> According to Taylor's perspective throughout the industrial world, a large part of the organization of employers, as well as employees, is oriented towards conflict rather than harmony, and perhaps the majority on either side do not believe that their interests become identical. Therefore, contrary to this antagonistic view, the true interests of both parties are fundamentally the same.<sup>44</sup> For illustration, Taylor provided a simple example: when two men working together produce two pairs of shoes in a day, while the worker from a competing corporation produces only one pair, it becomes clear that after selling the two pairs of shoes, the manager can afford to pay his workers much higher wages than the competitor who produces only one pair. Consequently, the manager's corporation will not only be able to offer higher wages but will also achieve a larger profit compared to the competitor.<sup>45</sup>

Defective systems of management make employees work slowly because they try to protect their best interests by avoiding full-load work.<sup>46</sup> As a result, the primary goal for workers and management should be the training and development of every individual within the organization. This would enable them to perform the highest quality work that aligns with their natural abilities at their fastest pace and with maximum efficiency.<sup>47</sup> If the above reasoning is correct, it may be enforceable through scientific study and analysis.

For further illustration, a comparison can be made between scientific management, also known as "task management," and ordinary management, where workers give their best initiative in exchange for some special incentive from their employers.<sup>48</sup> The initiative of the workers includes their hard work, goodwill, and ingenuity. However, scientific management suggests much greater efficiency than the old plan.<sup>49</sup> As Taylor explained in his work, under the "initiative and incentive" management approach, practically the whole problem is "up to

39 European Parliament and Council (2022). Directive 2024/1760 on corporate sustainability due diligence. <<https://eur-lex.europa.eu/eli/dir/2024/1760/oj>> [Last accessed: 07.07.2024].

40 Carroll, A. B. (1979). A Three-Dimensional Conceptual Model of Corporate Performance. *Academy of Management Review*, 4, No. 4, pp. 497-505.

41 Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons*, 34(4), 39-48.

42 Taylor, F. W. (1911). *The Principles of Scientific Management*. New York, NY: Harper & Brothers., p. 9.

43 *Ibid.*, pp. 9-10.

44 *Ibid.*

45 *Ibid.*

46 *Ibid.*, pp. 14-15.

47 Taylor, F. W. (1911). *The Principles of Scientific Management*. New York, NY: Harper & Brothers., p. 12.

48 *Ibid.*, pp. 34-35.

49 *Ibid.*, pp. 36-37.

the workman,” while under scientific management, fully one-half of the problem is “up to the management”.<sup>50</sup>

The biggest advantage of scientific management is the concept of task planning, where the employee’s work is fully planned out by management at least one day in advance. Each employee receives complete written instructions detailing the task they are to accomplish, as well as the means to be used in completing the work.<sup>51</sup> This kind of plan encourages the principle of joint effort between the worker and management, specifying not only what is to be done but also how it is to be done and the exact time allowed for doing it.<sup>52</sup> To summarize: scientific management largely consists of preparing for and carrying out these tasks.<sup>53</sup>

Taylor’s principles aimed to improve economic efficiency and labor productivity through a systematic and scientific approach to management. However, while Taylor’s ideas brought significant advantages in terms of efficiency and productivity, they also introduced a range of disadvantages that have been scrutinized in subsequent research.

Taylor’s theory is grounded in four key principles that collectively aim to optimize work processes and labor productivity:

- The first principal advocates for the scientific study of tasks to determine the most efficient way to perform each job. This involves breaking down tasks into smaller components, timing each movement, and identifying the best tools and techniques for each task. The goal is to eliminate inefficiencies and standardize work methods to ensure consistency and quality in production.<sup>54</sup>
- The second principle emphasizes the importance of selecting and training workers based on their capabilities. Taylor argued that workers should be scientifically trained to perform their tasks in the most efficient manner rather than relying on traditional methods or personal experience.<sup>55</sup>

This approach not only improves individual productivity but also ensures that the entire workforce operates at a higher level of efficiency.

- The third principle calls for cooperation between management and workers to ensure that work is carried out according to scientifically devised methods. Taylor believed that both parties should work together to achieve mutual benefits from increased productivity.<sup>56</sup>
- The fourth and final principle is the division of work and responsibility between management and workers. Taylor proposed that management should focus on planning and designing work scientifically, while workers should be responsible for executing the tasks. This clear division of labor was intended to optimize both the planning and execution stages of production.<sup>57</sup>

One of the most significant advantages of Taylor’s scientific management is the substantial increase in efficiency and productivity. By optimizing each task through scientific methods, Taylor’s approach reduced wasted time and effort, allowing workers to produce more in less time.<sup>58</sup> This not only benefited employers by increasing output but also allowed workers to earn higher wages. Taylor argued that the increased productivity would enable companies to pay higher wages, thus benefiting both workers and employers.<sup>59</sup>

Another advantage is the development of standardized work methods, which improved consistency and quality in production. Standardization made it easier to train new workers and ensured that all employees performed tasks in the most efficient manner. This led to more predictable outcomes and smoother operations in the workplace.<sup>60</sup>

Despite its many advantages, “Taylorism” has been criticized for its dehumanizing effects on workers. One of the main criticisms is that it reduces workers to mere cogs in a machine, focusing solely on their mechanical functions while

50 *Ibid.*, pp. 37-38.

51 *Ibid.*, pp. 38-39.

52 *Ibid.*, pp. 39-40.

53 *Ibid.*

54 Taylor, F. W. (1911). *The Principles of Scientific Management*. New York, NY: Harper & Brothers., pp. 25-26.

55 *Ibid.*, pp. 30-32.

56 *Ibid.*, pp. 37-38.

57 *Ibid.*, pp. 42-43.

58 *Ibid.*, pp. 56-58.

59 *Ibid.*, pp. 60-61.

60 Taylor, F. W. (1911). *The Principles of Scientific Management*. New York, NY: Harper & Brothers., pp. 65-66.



neglecting their human needs and creativity. This dehumanization can lead to low job satisfaction and a lack of motivation among workers.<sup>61</sup> The rigid structures imposed by Taylor's methods often stifle creativity and discourage workers from taking initiative.

Another disadvantage is the overemphasis on efficiency at the expense of workers' well-being. The intense pressure to perform tasks quickly and efficiently can lead to burnout, stress, and physical strain. The relentless focus on productivity sometimes overshadows the importance of maintaining a healthy and motivated workforce.<sup>62</sup>

Moreover, scientific management has limited applicability in modern, dynamic work environments. While Taylor's principles were highly effective in manufacturing settings with repetitive tasks, they are less suitable for jobs that require creativity, critical thinking, or flexibility. The rigid structures of "Taylorism" can hinder innovation and adaptability, both of which are crucial in today's fast-changing business landscape.<sup>63</sup>

The application of Taylor's principles has had a profound impact on various industries, particularly during the early 20th century. Among the companies that have successfully implemented these principles, Ford Motor Company stands out as a paradigm of corporate governance by efficiently utilizing scientific management techniques.

## 5.1. The Effect of the Scientific Management

Henry Ford, the visionary founder of Ford Motor Company, revolutionized the automobile industry by introducing the assembly line, a concept deeply rooted in the principles of scientific management.<sup>64</sup> Frederick Taylor's *Principles of Scientific Manage-*

ment emphasized the importance of optimizing work processes, increasing efficiency, and reducing costs—all of which were key factors in Ford's success. Ford's approach to standardizing work processes, emphasizing worker training and specialization, and implementing a clear division of labor are direct applications of Taylor's theories.<sup>65</sup>

Ford standardized automobile production by dividing the manufacturing process into smaller, repetitive tasks assigning each worker a specific role. This method minimized the need for skilled labor and significantly reduced production time, leading to the mass production of affordable automobiles. The introduction of the assembly line in 1913, which cut the production time of a car from over 12 hours to just 1.5 hours, is perhaps the most notable example of Ford's application of Taylor's principles.<sup>66</sup> Ford's focus on training workers to perform their tasks efficiently and consistently ensured high-quality output and contributed to the overall success of the company.<sup>67</sup>

The implementation of scientific management principles at Ford Motor Company yielded several significant advantages. First and foremost, the efficiency gains from the assembly line allowed Ford to produce automobiles at an unprecedented rate, transforming the Model T into an affordable vehicle for the average American.<sup>68</sup> By lowering production costs, Ford was able to sell the Model T at a much lower price, making car ownership accessible to a broader segment of society.<sup>69</sup>

Ford's methods were soon adopted by various sectors, leading to widespread industrial growth and the expansion of consumer goods markets during the 20th century.<sup>70</sup> The intense focus on efficiency and productivity also had social implications. While Ford's methods made automobiles more accessible, they also reinforced the divide between management and labor.<sup>71</sup>

61 Braverman, H. (1974). *Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century*. Monthly Review Press, pp. 95-96.

62 Rose, M. (1980). Industrial Rationalization and the New Division of Labor. *The British Journal of Sociology*, Vol. 31, No. 4, pp. 485-498.

63 Hales, C. (1999). Management Through Organization: The Management Process, Forms of Organization and the Work of Managers. *Management Decision*, Vol. 37, No. 10, pp. 754-765.

64 Taylor, F. W. (1911). *The Principles of Scientific Management*. New York, NY: Harper & Brothers., pp. 20-23.

65 *Ibid.*, pp. 45-50.

66 Tedlow, R. S. (2001). *The Rise and Fall of the Conglomerate Kings*. New York: Harper Collins, pp. 72-75.

67 Adas, M. (1990). *Machines as the Measure of Men*. Ithaca: Cornell University Press, pp. 98-100.

68 Taylor, F. W. (1911). *The Principles of Scientific Management*. New York, NY: Harper & Brothers., pp. 55-58.

69 Tedlow, R. S. (2001). *The Rise and Fall of the Conglomerate Kings*. New York, NY: Harper Collins., pp. 77-80.

70 Taylor, F. W. (1911). *The Principles of Scientific Management*. New York, NY: Harper & Brothers, pp. 102-105.

71 Tedlow, R. S. (2001). *The Rise and Fall of the Conglomer-*

Despite its success, Ford's application of scientific management principles was not without its disadvantages. The repetitive nature of the tasks assigned to workers on the assembly line led to significant worker dissatisfaction.<sup>72</sup> The monotony of performing the same task repeatedly contributed to high turnover rates and a sense of dehumanization among workers.<sup>73</sup> Critics of scientific management have often pointed to this dehumanizing aspect, arguing that workers were treated as mere cogs in the machine, with little regard for their personal fulfillment or motivation.<sup>74</sup>

## 5.2. Optimizing Corporate Performance through Flexible Management and Harmonization of Labor and Capital Interests

Any development, sophistication, or suggestion of a successful corporate government system that affects larger profits would come to the whole world in general. The existence of a flawless management system should not be our goal; rather, we should strive to minimize the risks that could potentially negatively impact the harmonization of interests among the parties. Disadvantages of scientific management such as discouragement of workers from taking initiative, the intense pressure to perform tasks quickly and efficiently and finally, the dehumanizing aspect for employees encourages us to think for creating better opportunities.

Today's fast-changing business landscape has shown that achieving high and effective productivity requires harmony between labor and capital interests. It is also true that the fast-changing business environment does not adhere to rigid frameworks but demands flexibility. Therefore, in practice, a situation should be envisioned where a company founder who decides to reorganize a limited liability company into a joint-stock compa-

ny may choose to distribute shares to employees for successful operation and, in addition to labor relations, involve them in daily business decisions. Such a decision may reduce dehumanizing aspects, directly affect creativity, improve task performance through critical thinking and flexibility, and ultimately encourage corporations in their profit-making processes.

## CONCLUSION

The integration of scientific management principles, the harmonization of labor and capital interests, and the adherence to fiduciary duties represent significant aspects of modern corporate governance. Companies can strive towards more balanced and effective management systems by understanding and addressing the hidden legal challenges within these frameworks. This approach can lead to better alignment of interests, more equitable wealth distribution, and improved overall corporate health.

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74 *Ibid.*, pp. 90-95.

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